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Chief Executive Officer

County of Los Angeles CHIEF EXECUTIVE OFFICE

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ADOPTED

BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES

12 June 17, 2014

Sachi A. Hamai
SACHI A. HAMAI
EXECUTIVE OFFICER

REVISED

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June 17, 2014

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

RECOMMENDATION TO ADOPT NEW RETIREE HEALTHCARE BENEFITS TIER (ALL DISTRICTS - 3 VOTES)

SUBJECT

This letter and accompanying ordinance will make changes to the Retiree Healthcare Program by adding a new benefits tier for employees who become members of the Los Angeles County Employees Retirement Association (LACERA) on or after August 1, 2014.

IT IS RECOMMENDED THAT THE BOARD:

1. Approve and instruct the Chairman to sign the Modification No. 2 to Agreement No. 41638, relating to a Health Insurance Program for Retired Employees and Their Dependents.
2. Approve changes to the Los Angeles County Code amending Title 5 – Personnel to add a new Retiree Healthcare Benefits (RHB) tier for employees hired by the County after June 30, 2014, or otherwise first placed in an employment classification eligible for LACERA membership after June 30, 2014.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

The LACERA Board of Retirement (BOR) created the Retiree Healthcare Program (RHP) in 1971. At that time, the BOR controlled the program benefit structure, the program administration, and the funding responsibility of the retirees' premium subsidy. The BOR paid the premium subsidy using "excess earnings" generated by the

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retirement benefit trust fund. While this funding approach was compliant with California State law and Internal Revenue Service (IRS) rules and regulations at the time, the funding source was unreliable as "excess earnings" may or may not be generated in any given year.

In 1982, an agreement was reached between the BOR, the LACERA Board of Investment (BOI), and the Board of Supervisors (Board). Specifically, BOR would agree to relinquish unilateral control over the RHB structure and reduce the County's 1982 retirement benefit contribution in exchange for the County funding the retirees' premium subsidy for as long as the County offered its active employees' healthcare benefits. By mutual consent, the 1982 Agreement was modified in 1994 as part of a pension obligation bond agreement wherein the County agreed to continue the RHP in the event the County ceased offering its active employees' healthcare benefits.

The 1982 Agreement effectively froze the RHP benefit structure in place with changes only allowable if mandated by Federal or State law, implemented by LACERA at no cost to the County, or mutually agreed upon by both LACERA and the County.

After considerable analysis, it became apparent that the structure of the RHP benefits contained in the 1982 agreement (including full coverage for a family and no requirement to enroll in Medicare) would become financially unsustainable in the future. In an effort to reduce the cost and the unfunded liability of the County's Other Post-Employment Benefits (OPEB), County management representatives sought agreement from its labor partners to change the RHP benefits for employees hired after June 30, 2014, effectively amending the 1982 agreement. After extensive discussion, agreement was reached on December 4, 2014~~2013~~. Each party to the agreement committed to vigorously pursue the following changes to retiree health care coverage for employees hired after June 30, 2014:

1. The same ten years of service vesting rights as currently exist.
2. After ten years of service with the County, employees will be credited with the same 4 percent of the cost for every year of service with the County (up to a maximum of 100 percent) as is the current practice.
3. The above formula will be benchmarked against rates that are based on the retiree only premiums and are the same regardless of coverage tier selected.
4. For those employees hired after June 30, 2014 who are eligible for Medicare will be required to enroll in that program.

5. The County will apply the above mentioned formula to the benchmarked costs associated with retiree only premium for Anthem Blue Cross I & II (Pre-65), Anthem Blue Cross III (post-65), and Retiree only for dental and vision.
6. Subsidy extended to eligible survivor.
7. Subsidy applies fully to whatever medical plan is selected.
8. County reimburses for Medicare Part B for member or eligible survivor only.
9. All other rules continue to apply.
10. In addition, all parties agree to support any legislation necessary to effect these changes.

County and LACERA staff worked to formulate the above changes into an administratively sustainable program. Once these discussions were complete, a modification to the 1982 agreement and accompanying ordinance was produced. Since the 1982 agreement requires that any changes must be agreed upon by both LACERA and the County, the attached Modification No. 2 to Agreement No. 41638, relating to "A Health Insurance Program for Retired Employees and Their Dependents" and the accompanying ordinance were presented to the BOR and BOI. The modification and ordinance were approved by the BOR and BOI on May 22, 2014 and June 11, 2014, respectively, thereby securing LACERA's agreement. We respectfully request that the Board agrees to the changes by adopting the agreement and accompanying ordinance.

This new agreement will not affect current retirees or employees who become LACERA members prior to August 1, 2014. These retirees and employees have a "vested right" to the benefits contained in the 1982 agreement. However, changes can be made for future employees.

Implementation Of Strategic Plan Goals

The recommended changes are consistent with the principles of the Countywide Strategic Plan by demonstrating fiscal integrity and financial responsibility.

In addition, labor, County management, and LACERA understood the ever increasing unfunded liability of the County's OPEB obligation and took action. The goal was to provide a competitive benefit to retirees while taking into consideration the long term financial impact to the County.

FISCAL IMPACT/FINANCING

The new retiree healthcare program contained in the agreement and accompanying ordinance will save the County up to \$840 million over the next 30 years and will reduce the OPEB unfunded liability by 20.8 percent.

FACTS AND PROVISION/LEGAL REQUIREMENTS

The accompanying ordinance implementing amendments to Title 5 – Personnel of the County Code and the Modification No. 2 to Agreement No. 41638 relating to a Health Insurance Program for Retired Employees and Their Dependents have been approved as to form by County Counsel.

The Coalition of County Unions and Service Employees International Union (SEIU), Local 721 have been informed of the changes and agreed to the content.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

There is no impact on current services.

Respectfully submitted,



WILLIAM T FUJIOKA
Chief Executive Officer

WTF:BC:JA
MTK:VMH:mst

Enclosures

c: Executive Office, Board of Supervisors
County Counsel
Los Angeles County Employees Retirement Association

EXHIBIT A

ORDINANCE AMENDING SECTION 5.20.080

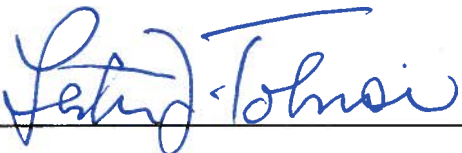
AND ADDING SECTION 5.20.085

ANALYSIS

This ordinance amends Title 5 – Personnel of the Los Angeles County Code by:

- Amending portions of Section 5.20.080 to clarify the section does not apply to new members; and
- Adding new Section 5.20.085 authorizing a new retiree health insurance program for LACERA members effective July 1, 2014 and later and their eligible dependents.

JOHN F. KRATTLI
County Counsel

By: 
LESTER J. TOLNAI
Assistant County Counsel

LJT:mst

Requested: 05-13-14
Revised: 05-15-14

ORDINANCE NO. _____

An ordinance amending Title 5 - Personnel of the Los Angeles County Code, relating to County contributions for retiree health insurance premiums for employees hired after June 30, 2014.

The Board of Supervisors of the County of Los Angeles ordains as follows:

SECTION 1. Section 5.20.080 is hereby amended to read as follows:

5.20.080 County contributions for health insurance premiums pursuant to Government Code Section 31691.

A. Pursuant to Section 31691 of the California Government Code, the board of supervisors hereby authorizes a health insurance program for retired county employees and their dependents, providing hospital services, medical services, dental services and optical services benefits, not less than those which were provided to retired employees and their dependents by the Los Angeles County Employees Retirement Association on June 30, 1982, as set forth in the agreement between the county and said Association dated April 20, 1982. This subsection does not apply to New Members as defined in Section 5.20.085. Such New Members are entitled to benefits as described in Section 5.20.085.

B. Crediting prior public service for purpose of retiree health benefits.

1. Any person designated in paragraph 5 below retiring after the effective date of this subsection may, in accordance with this section, receive credit for prior public service solely for the purposes of calculating the amount of retiree health insurance premiums paid by the County in accordance with California Government

Code Section 31691, County Code Sections 5.20.080 and 5.20.085, and the Funding Agreement between the County and the Los Angeles County Employees Retirement Associations (LACERA), dated April 20, 1982, and any amendments thereto (the "Retiree Health Program"). For the purpose of this section, prior public service refers to a period of employment with the federal government or any state or local government, whether or not such employment is recognized as allowed public service time under California Government Code Section 31641.1 or as reciprocal service under California Government Code Section 31836.

...

C. Retiree health insurance benefits for military reservists.

1. Any employee of the County designated in subparagraph 3 below who is a member of the California National Guard or a United States military reserve organization (reservist) who has completed less than ten years of County service and who retires, or dies, after the effective date of this subsection under circumstances set out in said subparagraph 2 shall, regardless of such person's actual length of County service, be deemed to have completed ten years of County retirement service credit solely for the purposes of calculating the amount of retiree health insurance premiums paid by the County on behalf of such person, or such person's eligible survivors, in accordance with California Government Code Section 31691, County Code Sections 5.20.080 and 5.20.085, and the Funding Agreement between the County and the Los Angeles County Employees Retirement Association (LACERA), dated April 20, 1982, and any amendments thereto.

2. The provisions of this subsection C shall apply to any reservist who is:

Aa. Called into Active Military Service, as defined in Section 6.20.080 of this Code, and allowed a military leave of absence;

Bb. A member of any of the contributory retirement plans established for general or safety members of LACERA; and

Cc. Permanently incapacitated for the performance of duty with his or her employing County department or district, or killed, as a direct consequence and result of injury or disease arising out of and in the course of said active military service.

...

SECTION 2. Section 5.20.085 is hereby added to read as follows:

5.20.085 Tier Two Retiree Health Care Program.

A. The board of supervisors hereby authorizes a new retiree health insurance program for New Members and their Eligible Dependents (as defined below).

B. Definitions.

The following terms when used herein with initial capital letters, unless the context clearly indicates otherwise, shall have the following respective meanings:

1. "Benchmark Plans" means those LACERA Group Health Plans, the premium for which is used to calculate the various County Subsidies.

a. Medical Benchmark Plans. With respect to retiree medical coverage for New Members who are not eligible to enroll in Medicare, the Medical Benchmark Plan is retiree-only coverage in the Anthem Blue Cross I & II plan (or any successor plan established by LACERA with comparable benefit coverage). With respect to retiree medical coverage for New Members who are eligible to enroll in Medicare, the Medical Benchmark Plan is retiree-only coverage in the Anthem Blue Cross III plan (or any successor plan established by LACERA with comparable benefit coverage).

b. Dental Benchmark Plan. With respect to dental coverage, the Dental Benchmark Plan is retiree-only coverage in the indemnity-style dental plan that is offered under the LACERA Group Health Plan as of July 1, 2014 (or any successor plan established by LACERA with comparable benefit coverage).

c. Vision Benchmark Plan. With respect to vision coverage, the Vision Benchmark Plan is retiree-only coverage in the indemnity-style vision plan offered under the LACERA Group Health Plan as of July 1, 2014 (or any successor plan established by LACERA with comparable benefit coverage).

2. "County Subsidies" means the amount the County agrees to pay toward the cost of retiree health coverage under the LACERA Group Health Plans on behalf of a New Member and/or his or her Eligible Dependents and, if applicable, the Medicare Part B premium reimbursement provided for in subsection 5.20.085E.2.

a. "County Medical Subsidy" means the amount the County agrees to pay toward the cost of retiree medical coverage under the LACERA Group Health Plans on behalf of a New Member and/or his or her Eligible Dependents.

b. "County Dental Subsidy" means the amount the County agrees to pay toward the cost of retiree dental coverage under the LACERA Group Health Plans on behalf of a New Member and/or his or her Eligible Dependents.

c. "County Vision Subsidy" means the amount the County agrees to pay toward the cost of retiree vision coverage under the LACERA Group Health Plans on behalf of a New Member and/or his or her Eligible Dependents.

d. "Medicare Part B Subsidy" means the Medicare Part B premium reimbursement provided for in subsection 5.20.085E.2.

3. "Eligible Dependents" means the family members or survivors of a New Member who are eligible to enroll in a LACERA Group Health Plan and may benefit from the County Subsidies. No person may be covered both as a New Member and as an Eligible Dependent. Eligible Dependents include a New Member's:

- a. Lawful spouse, unless legally separated;
- b. Domestic partner if both parties have registered a California Declaration of Domestic Partnership with the California Secretary of State;
- c. Unmarried natural or legally adopted children or stepchildren (or such children of the eligible spouse or domestic partner) who are under age 19;

d. Unmarried natural or legally adopted children or stepchildren (or such children of the eligible spouse or domestic partner) who are dependent on the New Member for financial support and who are under age 23 and enrolled as full-time students in an accredited or licensed educational institution;

e. Unmarried natural or legally adopted children or stepchildren (or such children of the eligible spouse or domestic partner) who (i) are dependent on the New Member for financial support, (ii) are incapable of self-support due to a physical or mental handicap, (iii) became disabled either before the age of 19 or before the age of 23 while enrolled as a full-time student at an accredited or licensed educational institution, (iv) have been continuously covered by a LACERA-sponsored, County-sponsored or other comprehensive medical insurance plan, and (v) for whom medical evidence of total disability has been provided to the satisfaction of LACERA and the LACERA Group Health Plan in which enrollment is sought; or

f. Eligible Survivors (as defined below). Any otherwise Eligible Dependent also must satisfy any enrollment criteria imposed under the terms of the LACERA Group Health Plans or otherwise established by LACERA. An individual who becomes a spouse, domestic partner or child of an Eligible Survivor after the New Member's death is not an Eligible Dependent (except to the extent required by law).

4. "Eligible Survivors" means the following individuals who were Eligible Dependents (as defined in Section 5.20.085A.3.a.-e.) on the date of the New Member's death:

a. A New Member's surviving lawful spouse who is receiving a survivor allowance from LACERA, provided that the New Member and spouse were married for at least one year prior to the New Member's retirement date (except in the case of a service-connected disability retirement, in which case the date of marriage must precede the date of retirement);

b. A New Member's surviving domestic partner who is receiving a survivor allowance from LACERA, provided that the applicable domestic partnership registration was made at least one year prior to the New Member's retirement date (except in the case of a service-connected disability retirement, in which case the domestic partner registration must precede the date of retirement);

c. If there is an eligible surviving spouse or domestic partner under subsection 5.20.085A.4. a. or b., the surviving children or stepchildren described in subsection 5.20.085A.3.c. or d., provided that any such individuals continue to satisfy the applicable requirements of those subsections;

d. If there is no eligible surviving spouse or domestic partner, a New Member's surviving, unmarried natural, legally adopted children or stepchildren who are receiving survivor allowances from LACERA, up until age 18 or until age 22 if enrolled as full-time students at an accredited or licensed educational institution; or

e. The surviving disabled children described in subsection 5.20.085A.3.e., provided that any such individuals continue to satisfy the applicable requirements of that subsection.

5. "LACERA" means the Los Angeles County Employees Retirement Association.

6. "LACERA Group Health Plans" means the group health plans sponsored and administered by LACERA, or otherwise offered to New Members, in accordance with the 2014 Agreement.

7. "New Member" means a County employee who: (a) either is hired by the County after June 30, 2014, or otherwise is first placed in an employment classification eligible for LACERA membership after June 30, 2014, (b) has a membership effective date with LACERA that is on or after August 1, 2014, and (c) is not granted reciprocity with LACERA for membership with another public retirement system for service that began before August 1, 2014.

8. "Reciprocal Agreement" means the Agreement for Retiree Health Insurance Reciprocal Subsidy Credit for General County and City Civilian Retirement Members, dated December 27, 2004, by and between the County and the City of Los Angeles.

9. "Tier Two Retiree Health Care Program" means the retiree health care program provided pursuant to the 2014 Agreement, this County Code Section 5.20.085 and any applicable collective bargaining agreements governing New Members.

10. "Year of Benefit Credit" means a period of credit used to determine the amount of a New Member's County Subsidy. A New Member will be credited with a Year of Benefit Credit for each full twelve months of aggregate (a) active membership

with LACERA, plus (b) reciprocal service credit, as and to the extent granted under the Reciprocal Agreement. In addition, any service credit granted under County Code Section 5.20.080C will be taken into account. Finally, solely for the purposes of calculating the amount of the County Subsidies under subsection D below, the service credit described in County Code Section 5.20.080B shall be taken into account and aggregated with other credited periods to determine Years of Benefit Credit (but not Years of Service Credit).

11. "Year of Service Credit" means a period of credit used to determine whether a New Member is eligible for a County Subsidy. A New Member will be credited with a Year of Service Credit for each full twelve months of aggregate (a) active membership with LACERA, plus (b) reciprocal service credit, as and to the extent granted under the Reciprocal Agreement. In addition, any service credit granted under County Code Section 5.20.080C will be taken into account.

12. "2014 Agreement" means Modification No. 2 to Agreement No. 41638, which was entered into as of _____ 2014, by and between the County and LACERA.

C. Eligibility for Tier Two Retiree Health Care Program. A New Member shall become entitled to benefits under the Tier Two Retiree Health Care Program upon (1) retiring under LACERA, for service or for non-service-connected disability, with at least ten (10) Years of Service Credit, or (2) upon retirement under LACERA due to a service-connected disability pursuant to Government Code Section 31720; provided that, for any New Member (and his or her Eligible Dependents) governed by the

Reciprocal Agreement, eligibility for coverage under the Tier Two Retiree Health Care Program shall be limited as provided in that Reciprocal Agreement.

D. Determining and Applying the County Subsidy.

1. Calculation for Retiree Medical Coverage.

a. Upon retirement for service or for non-service-connected disability with at least ten (10) Years of Service Credit, a New Member will receive a County Medical Subsidy equal to (i) 4 percent for every full Year of Benefit Credit (up to 100 percent), multiplied by (ii) the premium for the applicable Medical Benchmark Plan.

b. Upon retirement for service connected disability, a New Member will receive a County Medical Subsidy equal to the greater of (i) 50 percent of the cost of the applicable Medical Benchmark Plan, or (ii) the subsidy to which he is entitled under subsection D.1.a. above.

2. Calculation for Retiree Dental Coverage.

a. Upon retirement for service or for non-service-connected disability with at least ten (10) Years of Service Credit, a New Member will receive a County Dental Subsidy equal to (i) 4 percent for every full Year of Benefit Credit (up to 100 percent), multiplied by (ii) the premium for the applicable Dental Benchmark Plan.

b. Upon retirement for service connected disability, a New Member will receive a County Dental Subsidy equal to the greater of (i) 50 percent of the cost of the applicable Dental Benchmark Plan, or (ii) the subsidy to which he is entitled under subsection D.2.a. above.

3. Calculation for Retiree Vision Coverage.

a. Upon retirement for service or for non-service-connected disability with at least ten (10) Years of Service Credit, a New Member will receive a County Vision Subsidy equal to (i) 4 percent for every full Year of Benefit Credit (up to 100 percent), multiplied by (ii) the premium for the applicable Vision Benchmark Plan.

b. Upon retirement for service connected disability, a New Member will receive a County Vision Subsidy equal to the greater of (i) 50 percent of the cost of the applicable Vision Benchmark Plan, or (ii) the subsidy to which he is entitled under subsection D.3.a. above.

4. Use of County Subsidies.

a. The County Medical Subsidy may be applied toward the cost of purchasing any coverage level (e.g., retiree-only or family) for any medical plan option under the LACERA Group Health Plans that is available to the New Member and his or her Eligible Dependents, subject to the rules and limitations set forth in subsection 5.20.085E. below. A New Member and his or her Eligible Dependents (or surviving spouse or surviving domestic partner and other Eligible Survivors) must be enrolled in the same medical plan, unless some, but not all, eligible family members are Medicare-eligible. In that case, the Medicare-eligible individual(s) must enroll in a Medicare Advantage plan or Medicare supplement plan as provided in subsection 5.20.085E., and the non-Medicare-eligible individual(s) must enroll in the corresponding non-Medicare LACERA Group Health Plan. In addition, upon a New Member's death, if there is no surviving spouse or surviving domestic partner entitled to a County Medical

Subsidy, each Eligible Survivor may enroll in a separate medical plan, the County Medical Subsidy shall be allocated pro rata among such Eligible Survivors and each Eligible Survivor may apply his or her allocable share of the County Medical Subsidy toward the cost of the medical plan selected.

b. The County Dental Subsidy may be applied toward the cost of purchasing any coverage level (e.g., retiree-only or family) for any dental plan option under the LACERA Group Health Plans that is available to the New Member and his or her Eligible Dependents. A New Member and his or her Eligible Dependents (or surviving spouse or surviving domestic partner and other Eligible Survivors) must be enrolled in the same dental plan. Provided, however, that upon a New Member's death, if there is no surviving spouse or surviving domestic partner entitled to a County Dental Subsidy, each Eligible Survivor may enroll in a separate dental plan, the County Dental Subsidy shall be allocated pro rata among such Eligible Survivors and each Eligible Survivor may apply his or her allocable share of the County Dental Subsidy toward the cost of the dental plan selected.

c. The County Vision Subsidy may be applied toward the cost of purchasing any coverage level (e.g., retiree-only or family) for any vision plan option under the LACERA Group Health Plans that is available to the New Member and his or her Eligible Dependents. A New Member and his or her Eligible Dependents (or surviving spouse or surviving domestic partner and other Eligible Survivors) must be enrolled in the same vision plan. Provided, however, that upon a New Member's death, if there is no surviving spouse or surviving domestic partner entitled to a County Vision

Subsidy, each Eligible Survivor may enroll in a separate vision plan, the County Vision Subsidy shall be allocated pro rata among such Eligible Survivors and each Eligible Survivor may apply his or her allocable share of the County Vision Subsidy toward the cost of the vision plan selected.

E. Coverage Options for Medicare-Eligible Individuals; Medicare Part B Subsidy.

1. Mandatory Enrollment in Medicare Plans. Notwithstanding any other provision of this Section 5.20.085, to retain eligibility under the Tier Two Retiree Health Care Program, New Members and Eligible Dependents who are eligible for Medicare are required to enroll in Medicare Parts A and B, and may enroll only in a LACERA Group Health Plan that is a Medicare Advantage plan or Medicare supplement plan. A New Member or Eligible Dependent who: (a) fails to enroll in Medicare Parts A and B after becoming eligible; (b) assigns his or her Medicare benefit to a plan other than a LACERA Group Health Plan; or (c) loses Medicare coverage, will be terminated from participation in the Tier Two Retiree Health Care Program. A New Member or Eligible Dependent who has been terminated from the Tier Two Retiree Health Care Program, and who subsequently meets the requirements for eligibility, may be re-enrolled in the Tier Two Retiree Health Care Program after a six (6) month waiting period.

2. Medicare Part B Subsidy. If the New Member and/or his or her Eligible Dependents enroll in Medicare Parts A and B and a LACERA Group Health Plan that is a Medicare Advantage plan or Medicare supplement plan, the County will

reimburse a total amount equal to the standard self-only coverage premium amount for Medicare Part B. Regardless of the number of family members enrolled in Medicare, the total Medicare Part B Subsidy amount paid with respect to the New Member and/or his or her Eligible Dependents shall in no case exceed the standard self-only coverage premium amount for Medicare Part B. This Medicare Part B Subsidy shall not include any means testing or late enrollment fees or penalties.

F. Administration. LACERA shall administer the Tier Two Retiree Health Care Program as provided in the 2014 Agreement.

G. Amendment and Termination.

1. Generally. Subject to Section 5.20.085G.2. and the County's collective bargaining obligations, any restrictions imposed by California Government Code Section 31692, and the terms of the 2014 Agreement, the Tier Two Retiree Health Care Program and County Code Section 5.20.085 may be amended or terminated by the County at any time. In particular, and without limiting the foregoing, the County may, subject to its collective bargaining obligations, amend or terminate the Tier Two Retiree Health Program with regard to County employees who, at the time of such amendment or termination, have not yet been hired or placed in an employment classification eligible for LACERA membership. In addition, subject to Section 5.20.085G.2. and the 2014 Agreement, the terms of the Tier Two Retiree Health Care Program and this Section 5.20.085 of the County Code may be amended or modified with regard to current New Members and their Eligible Dependents, provided that any amendment or modification ensures that such New Members and their Eligible

Dependents continue to receive health care benefits that are comparable to those benefits provided under the current terms of the Tier Two Retiree Health Care Program. Such potential amendments or modifications include, but are not limited to, those that are necessary or desirable to address changes in the law, changes in the health insurance market or changes in the way in which health care services are delivered and paid for in the United States.

2. Represented Employees. Notwithstanding anything to the contrary in Section 5.20.085.G.1 above, with regard to New Members who are in a bargaining unit represented by an employee organization certified by the County Employee Relations Commission, any amendment or termination of the Tier Two Retiree Health Care Program and County Code Section 5.20.085 made by the County shall be subject to any applicable collective bargaining obligations and any procedural rights or other rights such employee organization may have to challenge the legality of actions taken by the County.

SECTION 3. Pursuant to Government Code Section 25123(f), this ordinance shall take effect immediately upon final passage. If this ordinance becomes effective after July 1, 2014, it shall be construed and applied as if it were effective and operative on and after July 1, 2014.

[520080MKCEO]
LAI-3210959V9

MODIFICATION NO. 2 TO AGREEMENT NO. 41638

**RELATING TO A HEALTH INSURANCE PROGRAM
FOR RETIRED EMPLOYEES AND THEIR DEPENDENTS**

**MODIFICATION NO. 2 TO AGREEMENT NO. 41638,
RELATING TO A HEALTH INSURANCE PROGRAM
FOR RETIRED EMPLOYEES AND THEIR DEPENDENTS**

This Modification No. 2 to Agreement No. 41638 ("2014 Agreement") is entered into as of June 17, 2014, by and between the County of Los Angeles ("County") and the Los Angeles County Employees Retirement Association ("LACERA").

WHEREAS, on April 20, 1982, the County and LACERA entered into Agreement No. 41638, and subsequently agreed to Modification No. 1 thereto on August 9, 1994, (collectively, the "82 Agreement"), under which the County agreed to adopt an ordinance pursuant to California Government Code section 31691 to provide a health insurance program for retired employees and their dependents, and agreed to support legislation to make that ordinance a statutory requirement;

WHEREAS, pursuant to the 82 Agreement, the County supported certain amendments to the County Employees Retirement Law ("CERL") and adopted County Code Section 5.20.080A, which County Code section authorized a retiree health care insurance program as set forth in the 82 Agreement;

WHEREAS, in 1992, the County and LACERA entered into a side letter agreement providing for LACERA to offer Medicare Part B supplement and advantage plans contingent upon annual approval by the County for continuation of these plans based on cost effectiveness;

WHEREAS, the County has determined that neither the CERL nor the County Code prohibit the County from negotiating with employee representatives, and renegotiating the 82 Agreement with LACERA, to modify the terms of the retiree health care insurance program with regard to individuals who have not yet been hired into an employment position eligible for LACERA membership and associated retiree health program;

WHEREAS, in order to strengthen its long-term financial health by reducing projected liabilities for other post-employment benefits ("OPEB"), the County sought and reached consensus with employee representatives regarding the design of the retiree health care insurance program to be offered to individuals who become active LACERA members effective as of dates on and after August 1, 2014 (and who are not granted reciprocity with LACERA for membership in a system that began before that date);

WHEREAS, strengthening the County's long-term financial health by reducing projected OPEB liabilities related to individuals who have not yet become LACERA members is in the interest of LACERA's current active and retired members;

NOW, THEREFORE, in consideration of the foregoing and the terms, covenants, and conditions herein contained, LACERA and the County agree as follows:

1.0 DEFINITIONS

- 1.1 "Benchmark Plan" means the LACERA Group Health Plan, the cost of which may be used to calculate the County Subsidy. The Benchmark Plan shall be selected by the County (subject to any collective bargaining obligations) as provided in Section 3.1 from among the LACERA Group Health Plans.
- 1.2 "County Subsidy" means the amount the County agrees to pay on behalf of a New Member and/or his or her Eligible Dependents toward (a) the cost of coverage under LACERA Group Health Plans; and (b) if applicable, the reimbursement of Medicare Part B premiums.
- 1.3 "Eligible Dependents" means the family members or survivors of a New Member who may benefit from the County Subsidy.
- 1.4 "Grandfathered Member" means a LACERA member who is not a New Member.
- 1.5 "LACERA Group Health Plans" means the group health plans sponsored and administered by LACERA, or otherwise offered to New Members, as provided in Section 3.2.
- 1.6 "New Member" means a County employee who: (a) either is hired by the County after June 30, 2014, or otherwise is first placed in an employment classification eligible for LACERA membership after June 30, 2014; (b) has a membership effective date with LACERA that is on or after August 1, 2014; and (c) is not granted reciprocity with LACERA for membership with another public retirement system for service that began before August 1, 2014.
- 1.7 "Tier Two Retiree Health Care Program" means the retiree health care program established for New Members as provided in: (a) this 2014 Agreement; (b) any applicable collective bargaining agreements; and (c) a County ordinance adopted pursuant to California Government Code Section 31691.

2.0 FROZEN ELIGIBILITY UNDER 82 AGREEMENT

- 2.1 New Members. Except to the extent provided in Sections 3.2 and 3.3, the 82 Agreement shall not apply to New Members. The rights of New Members shall be governed by the terms of the Tier Two Retiree Health Care Program.

- 2.2 Grandfathered Members. The rights of the Grandfathered Members shall not be affected by this 2014 Amendment, and shall continue to be governed by the terms of the 82 Agreement as in existence before this 2014 Agreement.

3.0 TERMS OF THE PROGRAM FOR NEW MEMBERS

3.1 County Ordinance and Tier Two Retiree Health Care Program.

- (a) The County shall determine certain terms of the Tier Two Retiree Health Care Program as specified herein; provided that, in the case of represented employees, the establishment of those terms shall be subject to applicable collective bargaining obligations. Those terms shall be set forth in County Code Section 5.20.085, which shall be attached hereto as Exhibit A. County Code Section 5.20.085 shall be adopted via ordinance pursuant to California Government Code section 31691, and shall include:
 - (i) The eligibility conditions for a New Member to become entitled to receive a County Subsidy;
 - (ii) The categories of Eligible Dependents;
 - (iii) The method for calculating the County Subsidy, including a determination of which of the LACERA Group Health Plans shall serve as the Benchmark Plan, and how the County Subsidy may be applied; and
 - (iv) A limitation on the LACERA Group Health Plans available to some categories of New Members (e.g., by requiring those who are Medicare eligible to enroll in a Medicare Advantage plan or a Medicare supplement plan).
- (b) In the case of represented employees, the terms of County Code Section 5.20.085, as set forth in Exhibit A, are the product of agreement between the County and employee representatives. LACERA has no part in determining the terms of County Code Section 5.20.085 as set forth in Exhibit A. The terms of County Code Section 5.20.085 may be amended from time to time by the County subject to its obligations to bargain with employee representatives, and Exhibit A shall be updated to reflect any changes to the County Code.

3.2 LACERA Group Health Plans; Administration of Tier Two Retiree Health Care Program. Consistent with current administrative practices under the 82 Agreement:

- (a) LACERA shall be responsible for sponsoring and administering the LACERA Group Health Plans offered to New Members and their Eligible Dependents, including but not limited to the Benchmark Plan. LACERA shall be responsible for selecting insurance carriers and negotiating coverage terms and rates. The Local 1014 group health plan also shall be treated as a LACERA Group Health Plan.
- (b) LACERA shall be responsible for establishing rules and procedures for, and administering, enrollment, and disenrollment of New Members and their Eligible Dependents in the LACERA Group Health Plans, and for collecting and paying over to the applicable LACERA Group Health Plan the County Subsidy and the New Members' share of premiums.
- (c) LACERA shall calculate the County Subsidy due with respect to each New Member and/or Eligible Dependent enrolled in a LACERA Group Health Plan.
- (d) LACERA shall be responsible for producing all communication materials regarding the terms of the Tier Two Retiree Health Care Program.

3.3 County Financial Obligations. The County shall pay the costs of the County Subsidy and LACERA's costs with respect to LACERA's administrative responsibilities under Section 3.2. Such costs shall be billed to and paid by the County in the same manner as costs are billed and paid under the 82 Agreement. The County may direct that these costs are paid pursuant to the trust established and administered pursuant to the Trust and Investment Services Agreement between the County of Los Angeles and the Board of Investments for LACERA with respect to the County of Los Angeles OPEB Program dated May 15, 2012.

4.0 AMENDMENT OR TERMINATION OF 2014 AGREEMENT

- 4.1 Termination. The County and LACERA may agree to terminate this 2014 Agreement at any time following 180 days written notice from one party to the other; provided, however, that any termination of this 2014 Agreement by the County with regard to represented employees shall be subject to any applicable bargaining obligations the County may have. Notwithstanding the foregoing, the first sentence of Section 2.1 shall survive the termination of this 2014 Agreement, and the 82 Agreement shall in no event apply to the New Members.

- 4.2 Amendment. This 2014 Agreement may be amended at any time in writing by the parties hereto; provided, however, that any amendment of this 2014 Agreement by the County with regard to represented employees shall be subject to any applicable bargaining obligations that the County may have.
- 4.3 Continuance of 82 Agreement. Except as specifically modified by this 2014 Agreement, the provisions of the 82 Agreement shall remain unaffected and shall continue in full force and effect as though completely restated in this 2014 Agreement.

5.0 DRAFTING, INDEMNITY, DEFENSE, AND HOLD HARMLESS

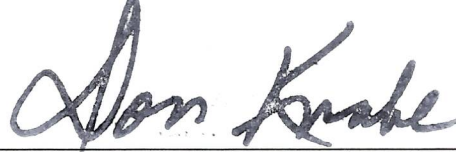
- 5.1 This 2014 Agreement reflects terms and conditions that are the product of an agreement between the County and bargaining units represented by employee organizations certified by the County Employee Relations Commission ("County Unions"). The County and the County Unions shall be deemed the drafters of this 2014 Agreement for the purposes of construing its terms.
- 5.2 The County agrees to indemnify, defend, and hold harmless, LACERA, its Trustees, and employees from any claim for damages arising from the adoption of this 2014 Agreement.

LAI-3211690v9

IN WITNESS WHEREOF, the parties have executed this modification as of the day, month, and year first above written.

COUNTY OF LOS ANGELES

By



DON KNABE

Chair, Board of Supervisors



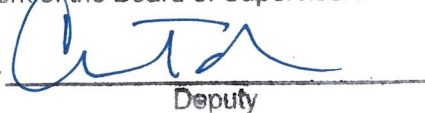
ATTEST:

SACHI A. HAMAI
Executive Officer
Board of Supervisors


I hereby certify that pursuant to
Section 25103 of the Government Code,
delivery of this document has been made

SACHI A. HAMAI
Executive Officer
Clerk of the Board of Supervisors

By


Deputy

By


Deputy

APPROVED AS TO FORM:

JOHN F. KRATTLI
County Counsel

ADOPTED
BOARD OF SUPERVISORS

#12

JUN 17 2014

By


LESTER J. TOLNAI
Assistant County Counsel
SACHI A. HAMAI
EXECUTIVE OFFICER

41638 Supplement No.

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LOS ANGELES COUNTY EMPLOYEES
RETIREMENT ASSOCIATION

By


YVES CHERY
Chair, Board of Retirement

By


JOHN BARGER
Chair, Board of Investments

APPROVED AS TO FORM:

By


for ROB VAN DER VOLGEN
Chief Counsel